Where can I find information?

Your bank, insurance company, registered dealer, or any registered financial adviser can provide you with written information on RESP investment products and self-directed RESP plans. Take advantage of these resources, and make a comparison of the different types of RESP investment products to determine which one is best for your child.

What can the Ontario Securities Commission do for me?

The Ontario Securities Commission (OSC) regulates the investment industry. You can check with us to find out if the person or company offering the RESP investment is registered in Ontario. We can investigate complaints, but the best way to protect your investment is to be an informed investor. The OSC does not insure or guarantee your RESP investments.

OSC Contact Information

The OSC Contact Centre answers written, telephone and e-mail inquiries about securities regulation. These services are available in English and French. If you have any questions, you can contact us in one of the following ways:

Telephone: (416) 593-8314
Toll free: 1-877-785-1555
Fax: (416) 593-8122
e-mail: inquiries@osc.gov.on.ca

Or write to:

Ontario Securities Commission
Contact Centre
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

Visit our website: **www.osc.gov.on.ca**

SAVING FOR YOUR CHILD'S EDUCATION

Get the facts about RESPs before you invest

OSC

What is an RESP?

If you have children, grandchildren or are expecting a child, you may be thinking about saving for their post-secondary education. Tuition rates are rising, and the best way to ensure that your child can afford an education is to start saving early. The financial services industry offers a range of products to help you save for your child's education, but as with any purchase you should shop around.

Registered Education Savings Plans (RESPs) have become a popular way to save since 1998, when the federal government introduced the Canada Education Savings Grant (CESG). The CESG program grants up to $400 per year (lifetime maximum of $7,200 total per child) as an additional RESP contribution for anyone investing in these products. If you would like more information about the CESG program, Human Resources Development Canada (HRDC) publishes a list of Frequently Asked Questions about RESPs and the CESG on their website: **www.hrdc-drhc.gc.ca**

An RESP is an education savings plan registered under the Income Tax Act. There are many types available so investigate the risks, costs and cancellation policies. Unlike contributions to a Registered Retirement Savings Plan (RRSP), RESP contributions are not tax-deductible. However, an RESP allows your contributions to grow tax-free.

What types of RESPs are *available?*

Self-directed RESP Accounts

A self-directed RESP is a registered account at a financial institution or dealer where your contributions can be invested in RESP-eligible securities including T-Bills, GICs, corporate or government bonds, mutual funds, or stocks.

RISK AND RETURN

Investments like stocks and mutual funds are riskier than T-Bills and GICs, because they do not guarantee your investment. GIC products are low risk but tend to have lower returns. Mutual funds may offer potentially greater returns, but they are riskier than GICs because you can lose some or all of your investment if the fund value falls.

COSTS

You make the investment decisions for the self-directed account, so prepare to spend time managing your investments. You can hire an adviser to manage your investments for you, but you may pay **adviser fees**. The fees charged depend on the investments you choose. Expect to pay **sales charges** if you purchase mutual funds, as well as **management fees**. If you purchase securities, expect to pay **transaction costs**, unless you are strictly purchasing GIC products.

CANCELLATION

If your child does not attend an eligible post-secondary school, you receive your contributions back, less the fees. The earnings on the investment may be rolled into your RRSP provided there is contribution room, or withdrawn with tax consequences. You must repay the CESG.

Pooled Individual or Family Scholarship Trust Plans

A pooled individual scholarship trust plan is a registered account with a scholarship plan dealer, where your contributions are pooled with those of other investors. You decide the amount of the contributions that go to your RESP(s). You can designate one beneficiary with an individual plan, and one or more beneficiaries with a family plan.

RISK AND RETURN

Scholarship plans are limited in their investment options.They generally must invest in fixed income securities such as bonds, T-bills and GICs. While low risk, these investments also tend to have lower returns.

COSTS

The pooled plan's investment managers make the investment decisions, giving them full control over your investment. You can expect to pay **enrolment fees, administration fees, investment management fees, depository fees, and trustee fees.** Fees are paid up front from your contributions, which decreases the total amount you have invested.

CANCELLATION

If your child does not attend an eligible post-secondary school, you receive your contributions back, less the fees. Earnings may be rolled into your RRSP if there is contribution room, or withdrawn with tax consequences. You must repay the CESG.

RESP Tips:

- Make sure you know what happens if you miss a payment, terminate your plan, or want to transfer the RESP between plans or beneficiaries.
- Read the prospectus – if you don't understand it, don't invest. If you change your mind after reading the prospectus of a Scholarship Trust Plan, you have 60 days to cancel your purchase at no cost to you.
- Understand how salespeople are paid, and where those payments come from.
- Know what fees you are expected to pay, and when you will pay them.
- Don't make investments based on verbal representation – get it in writing.
- Check the registration and qualifications of your investment representative.
- Don't fall victim to aggressive marketing techniques – take your time and do your research.
- Review the rules for the types of post-secondary education that are eligible under the RESP that you choose.
- How much work is being done to earn the management fees? If your money is being invested only in simple, low risk instruments like GICs and T-Bills the management fees should be relatively low.

Pooled Group Scholarship Trust Plans

A pooled group plan is a registered account with a scholarship plan dealer, where your contributions are used to purchase plan units. At maturity you share in the pooled earnings of investors with children the same age as yours, if your child goes on to eligible post-secondary education. Salespeople may get incentives like vacations for selling a certain number of plan units. The returns for pooled group plans depend on attrition. If you drop out of the plan, others benefit because you forfeit your earnings to the plan.

RISK AND RETURN

Pooled group plans can be risky – if you miss a contribution, your account may go into default and you may lose your plan membership. If you miss a contribution and are allowed to stay in the plan, you will have to pay interest on the missed payment. The interest owing can grow over time to an amount that is difficult to repay.

Scholarship plans are limited in their investment options. They generally must invest in fixed income securities such as bonds, T-bills and GICs. While low risk, these investments also tend to have lower returns.

COSTS

The pooled plan's investment managers make the investment decisions, giving them full control over your investment. You can expect to pay **enrolment fees, administration fees, investment management fees, depository fees, and trustee fees.** Fees are paid up front from your contributions, which decreases the total amount you have invested.

CANCELLATION

Pooled group plans are riskier than pooled individual plans because you have less flexibility in the way you make your payments.

If you terminate your plan, or your child does not pursue post-secondary education according to the rules of the Scholarship Trust company, you forfeit your earnings. You only get back your contributions, less any fees. As most of the fees are paid up front, the amount of money you get back may be less than what you put in. The CESG generated by your contributions is either repaid to the federal government, or used to assist other students.